

Military Department of Tennessee

**For the Years Ended
June 30, 2000, and June 30, 1999**

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
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**John G. Morgan
Comptroller**

October 4, 2001

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
Major General Jackie D. Wood, Adjutant General
Military Department of Tennessee
3041 Sidco Drive
Nashville, Tennessee 37204

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Military Department of Tennessee for the years ended June 30, 2000, and June 30, 1999.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings, which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
01/052



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October 4, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Military Department of Tennessee for the years ended June 30, 2000, and June 30, 1999.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Military Department of Tennessee's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Military Department of Tennessee is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings, which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Military Department of Tennessee's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/mb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Military Department of Tennessee
For the Years Ended June 30, 2000, and June 30, 1999

AUDIT SCOPE

We have audited the Military Department of Tennessee for the period July 1, 1998, through June 30, 2000. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of internal control, expenditures, the Station Commanders' Upkeep and Maintenance Funds, the active state duty payroll, equipment, subrecipient monitoring, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDINGS

Inadequate Segregation of Duties**

Duties involving access to the Tennessee On-Line Purchasing System and the Property of the State of Tennessee system were not adequately segregated (page 4).

Weak Controls Over the Station Commanders' Upkeep and Maintenance Funds**

Visits to selected armories and reviews of selected quarterly reports disclosed inadequate monitoring of the funds, inadequate segregation of duties, and noncompliance with applicable regulations (page 7).

Active State Duty Payroll Documentation Not Maintained**

The files used to calculate the active state duty payroll are not always complete (page 11).

Inadequate Recordkeeping Procedures for Federal Active Duty

State leave and attendance records are inadequate for determining if employees who served on federal active duty were in a proper leave status from the state at the time (page 13).

Equipment Records Not Properly Maintained*

Two pieces of equipment could not be found. Others were found at a location different from the one shown on the department's records. State tags were not attached to all equipment (page 15).

Noncompliance With Department of Finance and Administration Policy 22, "Subrecipient Monitoring"

The department did not send required reports and plans to the Department of Finance and

Administration. In addition, the department did not include all of its subrecipients in the monitoring plan, due September 30, 1999 (page 17).

Noncompliance With the Financial Integrity Act**

The department did not submit the responsibility letter that was due June 30, 2000, to the Commissioner of Finance and Administration and the Comptroller of the Treasury (page 19).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Military Department of Tennessee
For the Years Ended June 30, 2000, and June 30, 1999

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
PRIOR AUDIT FINDINGS	2
Resolved Audit Findings	4
Repeated Audit Findings	4
OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS	4
Internal Control	4
Finding 1 - The department does not adequately segregate duties	4
Expenditures	5
Station Commanders' Upkeep and Maintenance Funds	6
Finding 2 - Controls over the Station Commanders' Upkeep and Maintenance Funds are weak	7
Payroll	10
Active State Duty	10
Finding 3 - Documentation supporting the active state duty payroll is not adequately maintained	11
Federal Active Duty	12
Finding 4 - The department's leave and attendance recordkeeping procedures for employees on federal active duty are inadequate	13
Equipment	14
Finding 5 - Adequate records are not kept on equipment	15

TABLE OF CONTENTS (CONT.)

	<u>Page</u>
Department of Finance and Administration Policy 22, “Subrecipient Monitoring”	16
Finding 6 - The department did not comply with state guidelines for monitoring of subrecipients	17
Financial Integrity Act	18
Finding 7 - The department failed to comply with the Financial Integrity Act	19
Department of Finance and Administration Policy 20, “Recording of Federal Grant Expenditures and Revenues”	20
OBSERVATIONS AND COMMENTS	21
Title VI of the Civil Rights Act of 1964	21
APPENDIX	21
Allotment Codes	21

Military Department of Tennessee

For the Years Ended June 30, 2000, and June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Military Department of Tennessee. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Adjutant General is responsible for the administration of the Military Department of Tennessee. The department’s four major divisions are outlined below.

Administrative Services

Management Services provides the following state-financed services: preparation and execution of the budget; fiscal and accounting services; management and training of personnel; and procurement, inventory control, and issue of supplies, material, and equipment. The Bureau of War Records compiles and preserves records of Tennessee war veterans.

The department’s Public Affairs Office deals with the news media. Included in the department are the federally oriented sections—United States Property and Fiscal Office, Inspector General, and Support Personnel Military Office—and their federal employees.

Tennessee Army National Guard

The Tennessee Army National Guard is under the direction of an assistant adjutant general and is required, under the provisions of the National Defense Act, to furnish armory, office, and storage facilities for the care and safekeeping of materials and equipment furnished by the federal government, and to provide the maintenance and operating costs of these facilities. The Assistant Adjutant General

for the Tennessee Army National Guard is also responsible for the Tennessee State Guard and management of the various Station Commanders' Upkeep and Maintenance Funds throughout the state. The Tennessee State Guard is a voluntary organization that would provide personnel for the armory locations throughout the state in the event the National Guard was placed on active duty.

Tennessee Air National Guard

The Assistant Adjutant General for the Tennessee Air National Guard is responsible for the operation and maintenance of Air National Guard facilities in Nashville, Memphis, Chattanooga, and Alcoa.

Emergency Management

The Tennessee Emergency Management Agency is under the administration of the Military Department of Tennessee. The division administers a statewide system of civil preparedness and coordinates the efforts of state departments and local civil defense organizations in emergency and disaster assistance and planning.

An organization chart of the department is on the following page.

AUDIT SCOPE

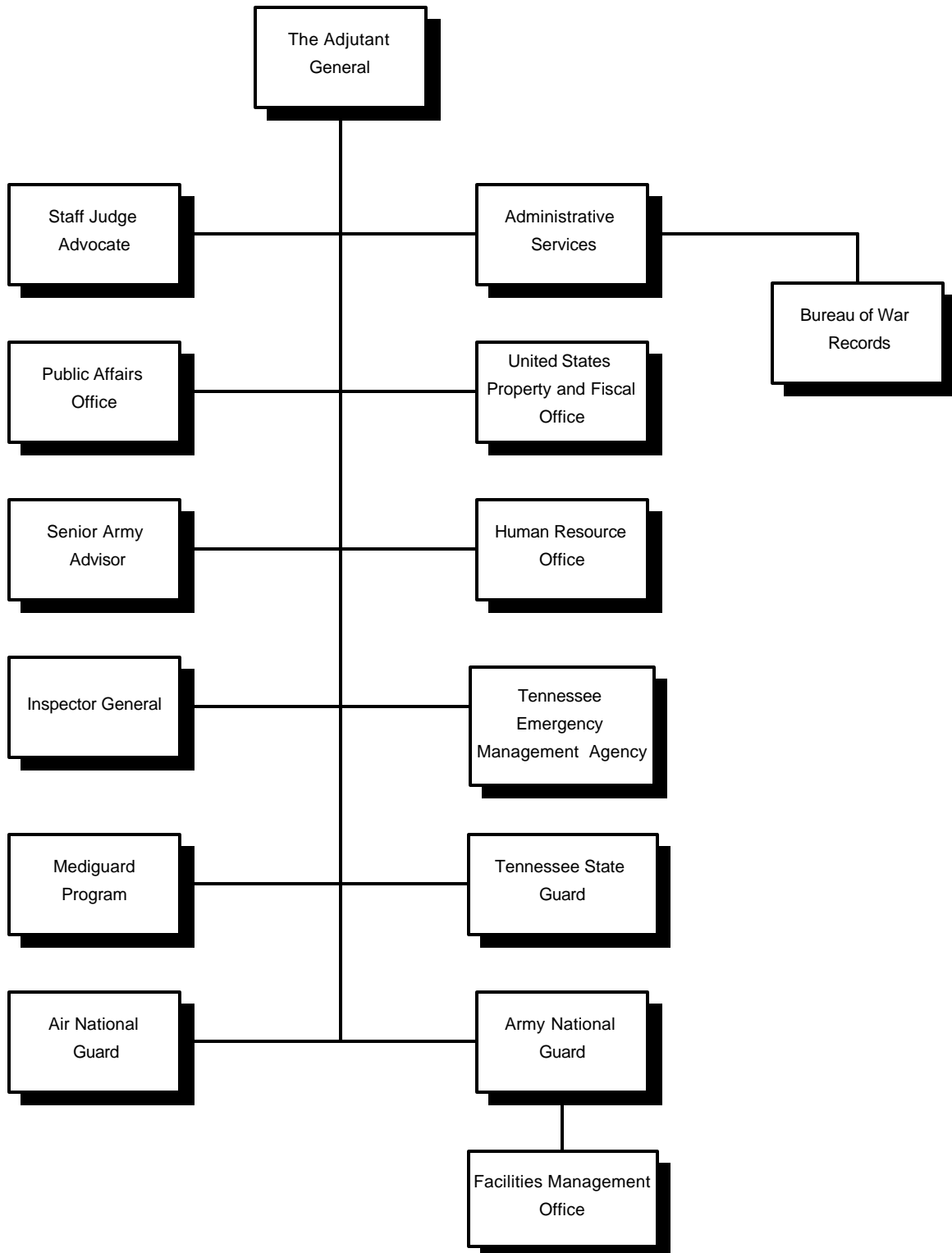
We have audited the Military Department of Tennessee for the period July 1, 1998, through June 30, 2000. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of internal control, expenditures, the Station Commanders' Upkeep and Maintenance Funds, the active state duty payroll, equipment, subrecipient monitoring, compliance with the Financial Integrity Act, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Military Department of Tennessee filed its report with the Department of Audit on May 10, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

MILITARY DEPARTMENT OF TENNESSEE

ORGANIZATION CHART



RESOLVED AUDIT FINDINGS

The current audit disclosed that the Military Department of Tennessee has corrected the previous audit findings concerning the circumvention of the approval process for obtaining staffing services and the failure to implement all procedures established by the Department of Finance and Administration Policy 20.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning inadequate segregation of duties, noncompliance with the Financial Integrity Act, weak controls over the Station Commanders' Upkeep and Maintenance Funds, lack of adequate payroll documentation for active state duty payroll, and inadequate equipment records. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

INTERNAL CONTROL

Our objective in reviewing internal controls and procedures focused on determining whether the department properly restricts access to the State of Tennessee Accounting and Reporting System (STARS), the Tennessee On-Line Purchasing System (TOPS), and the Property of the State of Tennessee (POST) system.

We interviewed key department personnel to gain an understanding of the department's procedures and controls related to the above areas. We also obtained a current listing of persons with access to STARS, TOPS, and POST. We then determined whether persons with update capabilities were active employees, had job duties which required this level of access, and had a level of access which created an inadequate segregation of duties. We concluded that access was properly restricted for STARS but was not properly restricted for TOPS and POST. This is discussed in finding 1. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

1. The department does not adequately segregate duties

Finding

As noted in the prior four audits, the department does not adequately segregate duties. The following weaknesses were noted:

- Two of the eight employees (25%) with Tennessee On-Line Purchasing System (TOPS) access can enter purchase orders and requisitions, approve them, and enter the receipt of the goods or services on TOPS. One of these employees is the procurement officer. This situation provides the employees with the opportunity to make purchases that are not properly authorized.
- As of December 4, 2000, two of the three employees (66.7%) who had Property of the State of Tennessee (POST) access no longer had positions that required POST access. With this access, these persons could still access state equipment files and perhaps make unauthorized changes to the data files.

Inadequate management controls permit individuals to circumvent the normal review and approval process. The failure to segregate duties significantly increases the potential for errors and fraud to occur and go undetected. In response to the previous finding, management stated that it had taken additional steps to segregate duties. Management did reduce to two, the number of individuals who can enter purchase orders and requisitions, approve them, and enter the receipt of the goods or services. However, these are incompatible functions and should not be allowed.

Recommendation

The Director of Administrative Services should take additional steps to segregate duties. When persons are transferred to positions that do not require access to certain computer applications, their access should be canceled immediately. The person with approval authority in TOPS should have no other authority.

Management's Comment

We concur. The Director of Administrative Services has taken additional steps to segregate duties. When persons are transferred to positions that do not require access to certain computer applications, their access is canceled immediately. The person with approval authority in TOPS will change data files access.

EXPENDITURES

Our review focused on determining whether

- recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting system;
- payments to vendors were made promptly;

- expenditures were in compliance with applicable state regulations; and
- contract payments complied with contract terms and purchasing guidelines and were properly approved and recorded against the contract.

We interviewed key personnel to gain an understanding of management controls. We then selected a sample from the population of expenditures charged to maintenance, professional and administrative services, supplies, rentals and insurance, motor vehicle operations, awards and indemnities, grants and subsidies, and unclassified expenses. We examined the documentation related to these expenditures and concluded that the expenditures were adequately supported, properly authorized, correctly recorded in the state's accounting system, paid promptly, and in compliance with the applicable regulations and contractual agreements. Although we had no findings related to expenditures, minor weaknesses were reported to management in a separate letter.

STATION COMMANDERS' UPKEEP AND MAINTENANCE FUNDS

Money received for National Guard armory rentals is deposited into the Station Commanders' funds and used for upkeep and maintenance of armories. The objectives of our review were to determine whether

- the station commanders' funds were adequately monitored and reviewed;
- the duties involved in the processing of receipts and the payment of expenditures were properly segregated;
- appropriate accounting records were properly maintained;
- quarterly reports were submitted timely with the required information;
- receipts were prepared for all money received, and the money was deposited promptly;
- expenditures for goods and services were authorized and allowable;
- contracts were executed for all rentals of the armories; and
- all payments for armory rentals were made in advance.

We interviewed key personnel to gain an understanding of management controls used by the Construction and Facilities Management Officer (CFMO), the person in charge of all station commanders' funds. We also reviewed the work performed on the funds by the department's internal review section. We concluded that the funds had not been adequately monitored or reviewed. This is discussed in finding 2.

We visited five armories (Nashville, Smyrna, Jackson, Morristown, and Tullahoma) and reviewed selected quarterly reports from five other armories (Memphis, Johnson City, Elizabethton, Columbia, and Paris). For the armories that were not visited, we reviewed all supporting documentation included with one quarterly report. We determined that the required information had been submitted. For the armories that were visited, we interviewed key personnel to gain an understanding of the controls and procedures over the funds. We also reviewed supporting documentation for one quarterly report at each armory visited. We determined that

- the duties involved in the processing of receipts and the payment of expenditures were not always properly segregated;
- appropriate accounting records were properly maintained;
- quarterly reports were submitted with the required information, although not always timely;
- receipts were prepared for all money received, but the money was not always deposited promptly;
- expenditures for goods and services were authorized but were not always allowable;
- contracts were executed for all rentals of the armories; and
- payments for armory rentals were not always made in advance.

These problems are discussed further in finding 2. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

2. Controls over the Station Commanders' Upkeep and Maintenance Funds are weak

Finding

As stated in 12 previous audits, the Military Department needs to improve controls over the Station Commanders' Upkeep and Maintenance Funds. Management concurred with the previous audit finding and stated that new regulations for these funds had been established. These regulations were reviewed, and the revisions have indeed strengthened some of the requirements for managing the funds. However, the revisions did not include a requirement that copies of the bank statements be sent in with the quarterly reports. Without this additional documentation, the Construction and Facilities Management Officer (CFMO) cannot determine if the information on the reports is accurate. Also, the department's internal review section had not performed any internal reviews of the Station Commanders' Upkeep and Maintenance Funds during the year ended June 30, 2000.

During the audit, armories in Nashville, Smyrna, Jackson, Morristown, and Tullahoma were visited. One quarterly report at each armory visited was reviewed. Testwork revealed the following:

- a. The Station Commander at Nashville purchased a \$210.70 plaque for the Construction and Facilities Management Officer. The *Army Procedures for the Station Commander's Upkeep and Maintenance Fund* (the "procedures"), paragraph 9A, states that allowable expenditures are used for maintenance, repair, upkeep, alteration, equipment, modification or improvements of the armory, facilities, or area adjacent thereto.
- b. The Station Commander at Nashville did not prepare the selected quarterly report properly.
 - 1) The beginning cash balance on the quarterly report was \$22,884.90; however, the previous quarter's ending cash balance was \$23,409.42, a difference of \$524.52.
 - 2) The quarter's ending cash balance of \$11,152.10 could not be reconciled to the bank statement. The bank reconciliation showed a \$4,111.49 book balance. The difference was primarily due to the September 1998 bank reconciliation not being correctly prepared. Deposits in transit and outstanding checks were shown on the bank reconciliation that were not reflected in the book balance at September 30, 1998.
- c. The Station Commander at Nashville purchased eight equipment items, but they were not added to the Property of the State of Tennessee system. One of the eight items, a color printer costing \$225.00, could not be located.
- d. A state employee was paid \$452.84 to set up, monitor, and clean up after an event at the Nashville armory. However, the time sheet indicated that the employee was in training that day. The employee was paid the day before the event occurred.
- e. The Station Commander at Morristown did not send quarterly reports to the Nashville office during the year ended June 30, 1999. The quarterly reports had been prepared; however, the September 30, 1998, quarterly report was not signed by the Station Commander or the fund custodian. Paragraph 14 of the procedures requires that each fund custodian furnish the CFMO a financial report at the end of each calendar quarter. Also, two persons should review and sign the report in order to ensure its accuracy.
- f. The Station Commander at Smyrna did not complete the report for the quarter ended June 30, 2000, until August 22, 2000.
- g. The Station Commanders at Nashville, Morristown, and Tullahoma did not deposit receipts immediately as required by paragraph 7D of the procedures. Seven of 29 Nashville receipts tested (24.1%) were deposited from one to six days late. Nine of 14 Morristown receipts tested (64.3%) were deposited from one to ten days late. Two of three Tullahoma receipts tested (66.7%) were deposited one day late.

- h. The Station Commanders at Nashville, Jackson, and Tullahoma did not always receive fees in advance for armory rentals as required by paragraph 8A(2)(c) of the procedures. Fees were received on the day of the rental and up to 68 days after the rental.
- i. The Station Commanders at Nashville, Smyrna, Morristown, and Tullahoma did not adequately segregate duties as required by paragraph 13 of the procedures. The Fund Custodian at Smyrna, Morristown, and Tullahoma prepared receipts, endorsed the checks, prepared the deposits, made the deposits, recorded the deposits, approved disbursements, signed the checks, reconciled the bank statements, and recorded the disbursements in the accounting records. At Nashville, three persons are authorized to approve disbursements and sign checks. These combinations of duties provide persons with the opportunity to conceal errors or fraud or to perform a financial transaction without proper approval.
- j. The Station Commander at Morristown did not prepare the September 1998 bank reconciliation properly. Deposits in transit and outstanding checks were not considered. Also, the September 30, 1998, quarterly report was not prepared correctly. The incorrect beginning balance was used, and income from the previous quarter was included. After these errors were considered, the quarterly report agreed with the bank reconciliation.
- k. The Station Commander at Morristown did not retain the check and receipt books from July 1, 1998, through December 31, 1999, as required by paragraph 15 of the procedures.

Recommendation

The Assistant Adjutant General of the Army National Guard should change the current regulations to require that bank statements be included with the quarterly reports. The Assistant Adjutant General should establish procedures at the division level to ensure that quarterly reports comply with the *Army Procedures for the Station Commander's Upkeep and Maintenance Fund*. He should then begin an evaluation of each armory's controls, make any necessary changes, and monitor the armories for compliance. The department's internal review section should routinely review these funds to ensure that adequate controls are in place and operating effectively.

Management's Comment

We concur. The regulations will be revised to require that quarterly reports include a reconciled copy of the monthly bank statements and that a minimum of 12 funds be monitored by the internal review section each year.

PAYROLL

Active State Duty

The Military Department uses an internally developed system to calculate the payroll for active state duty individuals. Our objectives in reviewing the active state duty payroll focused on determining whether

- there was a properly completed request for orders on file;
- there was a signed order on file covering the pay period;
- there was a properly completed time sheet on file, if applicable;
- gross pay was calculated correctly;
- all allowances agreed with the approved pay schedule; and
- the federal income tax and FICA withheld were calculated correctly.

We interviewed key personnel to gain an understanding of management controls. We also selected a nonstatistical sample of payroll expenditures made to persons on active state duty to determine if the above objectives had been met.

We found the following:

- there was not always a properly completed request for orders on file;
- there was always a signed order on file covering the pay period, but the order was not always properly completed;
- the time sheets on file were properly completed;
- gross pay was not always calculated correctly;
- allowances did not always agree with the approved pay schedule; and
- the amount of federal income tax withheld was not always supported.

These are discussed in finding 3. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

3. Documentation supporting the active state duty payroll is not adequately maintained

Finding

As noted in the prior three audits, the Military Department's files used to calculate the active state duty payroll are not always complete. In its response to the prior audit finding, management stated that it had implemented the recommendation from the prior audit and that each participant is required to complete a W-4 each calendar year before the first payroll is processed. Improvements have been made. However, the following discrepancies were noted:

- a. For 7 of 26 payments tested (26.9%), the federal income tax withheld was not supported by an IRS Form W-4.
- b. Eight of 26 payments tested (30.8%) were not supported by the required request for orders which originates the process for the call to active duty.
- c. Twenty-two of 26 payments tested (84.6%) were supported by an order which did not include the individual's filing status or number of dependents.
- d. One of 26 payments tested (3.8%) was not calculated correctly because the wrong basic allowance for subsistence was used.
- e. Two of 26 payments tested (7.7%) were not calculated correctly because the wrong pay grade was used.
- f. One of 26 payments tested (3.8%) was supported by an activation order which did not have either a signature or stamp to indicate the proper authorization.
- g. For 11 of 26 payments tested (42.3%), there were no promotion orders on file to verify the pay grade.

Failure to maintain accurate and complete payroll information increases the probability that an error or fraud could occur and go undetected.

In addition, an inadequate segregation of duties related to emergency active duty was noted. The commanding officer writes a memo listing the persons who served on emergency active duty and also distributes their paychecks. This could result in a check being generated for someone who did not serve on active duty.

Recommendation

The Director of Administrative Services should establish procedures to ensure that the fiscal director and staff maintain a complete file for each person on active state duty. The fiscal director should compare the pay calculations to the supporting documentation on a regular basis to ensure that the participants are being paid the proper amount. Additionally, someone other than the commanding officer should distribute emergency active duty checks.

Management's Comment

We concur. The Director of the Administration Services Division has established procedures to ensure that the fiscal director and staff maintain a complete file for each person on active state duty. This procedure will include appropriate checklists and scheduled reviews to ensure all required documents are present.

The fiscal director shall compare these payroll calculations to the supporting documentation on a regular basis to ensure that the participants are being paid the proper amount.

Active state duty checks are mailed directly to the employee.

New procedures have been established for implementation and tracking of each State Active Duty Order to facilitate proper processing of each order.

Federal Active Duty

Our objectives in reviewing leave and attendance records for department employees who also served on federal active duty were to determine whether

- employees paid by the federal government for active duty were on leave from the state during that time, and
- employees on military leave from the state were actually serving on federal active duty.

We obtained a listing of 31 employees who had taken the maximum allowable amount of military leave during calendar years 1999 and 2000. We obtained state leave and attendance records for these employees for those two years. We also obtained attendance calendars for these individuals that show the dates and types of federal active duty. We compared the state and federal attendance records to determine if employees took leave appropriately.

We found instances in which employees were paid for federal active duty but their state leave and attendance records did not indicate they were on any type of leave from the state. Because the attendance records do not indicate the times of service, we could not determine if the employees were

paid for the exact same hours. We also found cases where the employees' state leave and attendance records showed military leave; however, there was no record of federal active duty on that day. We also found employees who took sick leave from the state when they were on federal active duty. These issues are discussed in finding 4. In addition to the finding, other minor weaknesses were reported to management in a separate letter.

4. The department's leave and attendance recordkeeping procedures for employees on federal active duty are inadequate

Finding

A number of employees of the Military Department also serve at various times on federal active duty. These employees may take up to 15 days of military leave with pay each year for this duty. Any employee on federal active duty for more than 15 days during the calendar year must take annual leave, compensatory leave, leave without pay, or administrative leave on the state leave and attendance record. Chapter 1120-6-.18 of the *Rules of the Tennessee Department of Personnel* states:

(1) *Military Leave With Pay.* A leave of absence with pay, not to exceed fifteen (15) working days in any one year, will be granted to employees who are members of the reserve components of the Armed Forces of the United States, including members of the Tennessee National Guard, for periods they are engaged in the performance of duty or training activities in the service of the State or the Federal Government while under orders.

(2) *Military Leave Without Pay.* Leave without pay will be granted for periods of active duty or training activity with the Armed Forces of the United States, its reserve components, or the Tennessee National Guard for authorized periods beyond the fifteen (15) days of paid leave in a calendar year.

Leave and attendance records of those employees who had taken the maximum of 15 days of military leave during calendar years 1999 and 2000 were tested. Twenty-four of 31 employees tested (77.4%) had been paid for federal active duty on at least one day when they were not on leave from the state and were scheduled for work. State timekeeping records show only the number of hours worked or the number of hours in a particular leave status on a given date, not the beginning and ending times. Without this information on the state leave and attendance records, it could not be determined if the employees were paid by the state and the federal government for the exact same hours.

In addition, three of the 31 employees tested (9.7%) had recorded military leave on their leave and attendance record but were not on federal active duty. The leave and attendance records for five of these employees (16.1%) reflected days of sick leave from the state, but the federal records indicated they were on federal active duty. In one instance, an employee who had been granted 20

days of administrative leave each calendar year to use for additional federal military service used 21 days.

If accurate records are not maintained, the probability increases that the rules could be violated, and the violations go undetected. This could result in employees being paid by the state when they are actually on federal active duty.

Recommendation

The Adjutant General should establish procedures to ensure that employees on federal active duty take the appropriate amount of leave. Those employees who have been paid erroneously should be required to reimburse the department.

Management's Comment

We concur.

- We have developed a form to be used in order to distinguish, define, and track leave and attendance for employees who are also subject to state and federal active duty orders. Using this form will eliminate any inadvertent duplications or conflict of duty hours.
- We have required an explanation and correction of state and federal time conflicts from each state employee identified in the audit as negligent for the past two years.
- We will, where appropriate, require a recalculation of annual leave or we will make recovery (require repayment) of any money owed the state because of a leave and attendance conflict.

EQUIPMENT

The objectives of our work in the area of equipment were to determine whether

- the information on the Property of the State of Tennessee (POST) system is accurate;
- equipment is adequately safeguarded;
- information on the equipment being leased from the Office for Information Resources (OIR) is accurate; and
- vehicles leased from Motor Vehicle Management are used only for official business and are restricted to those persons whose job duties require it.

To accomplish this, we interviewed key personnel to gain an understanding of management controls. We reconciled total equipment expenditures in the State of Tennessee Accounting and Reporting System (STARS) to total acquisitions in POST for the audit period. We tested a nonstatistical sample of equipment in POST costing at least \$5,000 to determine if the above objectives had been met. We obtained a current billing record of equipment being leased from OIR and tested it to determine if the information available on this equipment was accurate. We obtained from Motor Vehicle Management a listing of all vehicles being leased by the Military Department and tested a nonstatistical sample to determine if the vehicles were being used only for official business and usage was restricted to only those persons whose job duties required it.

We found that the information on POST is not always accurate, equipment is not always adequately safeguarded, and information on the equipment being leased from OIR is not always accurate. This is discussed further in finding 5. We found that the leased vehicles were used only for official business, and their usage was restricted to those persons whose job duties required it.

5. Adequate records are not kept on equipment

Finding

As noted in the prior audit, the Military Department does not keep adequate records on the equipment that it uses. Both Office for Information Resources (OIR) and department equipment were tested. The testwork on OIR equipment maintained by and billed to the department disclosed the following:

- a. One of the 15 pieces of equipment tested (6.7%) could not be located. Management stated that the equipment had been returned to OIR but was unable to produce documentation.
- b. Four of the 15 items tested (26.7%) did not have state tags.

Testwork on 27 pieces of the department's equipment which cost at least \$5,000 each disclosed the following:

- a. One item (3.7%) could not be located. This was a video player and recorder costing \$40,790.50. Management stated that the item had been surplused but was unable to provide the necessary documentation to support this.
- b. Eleven of the 26 items that were found (42.3%) were not at the location indicated in the Property of the State of Tennessee (POST) system. Ten of the 11 items were shown as being in Davidson County but were actually in other counties across the state. The other item was shown in POST as being located in Smyrna but was actually located in Milan.

- c. One of the 26 items (3.8%) did not have a State of Tennessee property tag attached.
- d. One of the 26 items (3.8%) was software. There was no information in POST that indicated the tag number of the hardware in which the software was used.

At the department, each piece of equipment is assigned to a person. The person who is responsible for the equipment performs the annual physical inventory. There is no other person who verifies the count.

Not maintaining a current, accurate inventory listing for OIR equipment can result in the department being billed for equipment no longer in its possession. Departmental equipment is more easily lost or stolen if accurate location records are not kept and if the custodian of the inventory also performs the annual physical inventory unassisted. Management concurred with the prior finding and stated that it had initiated a program in which a person in the internal review section would perform inventories of equipment. Management did initiate a program to perform a complete inventory; however, it was not timely or complete.

Recommendation

The Director of Administrative Services should establish procedures to ensure that equipment records are updated when equipment is moved and that all appropriate items have a state tag attached. For software, a comment should be added in POST that indicates the tag number of the hardware in which the software is being used. Someone other than the person responsible for equipment should perform the physical inventory. The director should monitor these procedures to ensure that they are implemented. When equipment is returned to OIR, the department should keep documentation of the transfer and review monthly billings to ensure that equipment listed on the billing agrees with the department's inventory records.

Management's Comment

We concur. The Director of Administrative Services in concert with the Procurement Division shall draft a procedure that will cause the Property Officer of the Military Department to be notified of a change in disposition of state property. This accountability will be promulgated by the Adjutant General and will follow the standards prescribed in the POST manual.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 22, "SUBRECIPIENT MONITORING"

The Department of Finance and Administration Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. Our objectives focused on determining whether

- the department submitted to the Department of Finance and Administration the required monitoring plans and monitoring reports;
- the department identified its subrecipients and included all of them in the monitoring plans; and
- the department assessed the risk of each subrecipient in compliance with the guidelines set forth by the Department of Finance and Administration.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 22. We reviewed the information sent to the Department of Finance and Administration. We obtained from our Information Systems section a listing of all entities that had received funds classified as grants from the department and compared this listing to the list sent by the Military Department to the Department of Finance and Administration. We determined that the department submitted a monitoring plan to the Department of Finance and Administration in 1999, but did not submit a plan in 1998. Also, the department did not submit the required monitoring reports in 1999. The department properly assessed the risk of the subrecipients listed in its 1999 monitoring plan; however, this plan did not include all of the department's subrecipients. These weaknesses are discussed in finding 6.

6. The department did not comply with state guidelines for monitoring of subrecipients

Finding

Department of Finance and Administration Policy 22 establishes guidelines for monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. The policy states in paragraph 14, "All state agencies affected by this policy must develop and submit an annual monitoring plan to the Department of Finance and Administration, Division of Resource Development, for review, comment and approval by September 30, of each year, starting in 1998." The department did not submit a monitoring plan in 1998.

Paragraph 17 of the policy states, "Each affected state agency shall submit an annual report summarizing its monitoring activities to the Department of Finance and Administration, Division of Resource Development and Support by October 31 of each year, starting in 1999." The department did not submit a report in 1999.

Paragraph 12 of the policy requires that the monitoring plan identify all subrecipients to be monitored. However, 67 subrecipients that received funds from the department classified as grant-related expenditures were not listed on the 1999 plan. The total amount of these expenditures exceeded \$6 million.

Noncompliance with this policy could result in some subrecipients not being properly monitored.

Recommendation

The Adjutant General should establish procedures which ensure that all monitoring plans and reports are properly submitted and that all subrecipients are included in the monitoring plan.

Management's Comment

We concurred with this finding in 1999, with regard to Policy 22 of the Department of Finance and Administration.

- The omissions of 1998 and 1999 for uniform monitoring of monies paid subrecipients was corrected in year 2000, with the implementation of a contract to provide subrecipient monitoring by the Office of Resource Development and Support, a division of the Tennessee Department of Finance and Administration. It is now the responsibility of the contractor to implement the plan procedures for the timely submittal of complete and inclusive reporting of all subreceptients' funds.
- We will pursue further information from Finance and Administration to ensure that we meet their full and complete reporting requirements to include any additional reports necessary. In 1999, a plan was submitted that may not have contained all of the things required by the auditors, but a plan was submitted and discussed with the appropriate Finance and Administration personnel. However, we were not given any input concerning additional information required.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2000, and June 30, 1999, responsibility letters and December 31, 1999, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained;

- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the supporting documentation for these procedures. We reviewed the June 30, 1999, responsibility letter and the December 31, 1999, internal accounting and administrative control report submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to submission deadlines. To determine if corrective action plans had been implemented, we interviewed management and reviewed supporting documentation as considered necessary.

We determined that the Financial Integrity Act responsibility letter due June 30, 1999, and the internal accounting and administrative control report were submitted on time. The department did not submit the responsibility letter that was due June 30, 2000. This is discussed in finding 7. Support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. Corrective action was being taken on the weaknesses noted.

7. The department failed to comply with the Financial Integrity Act

Finding

As noted in the prior two audits, the Military Department failed to comply with the requirements of the Financial Integrity Act of 1983. Management concurred with the prior audit finding and stated that it was complying with the Act as amended on March 25, 1998. The department filed the responsibility letter due by June 30, 1999, but did not file the letter due by June 30, 2000.

The Financial Integrity Act was modified on March 25, 1998. The amended law changed the department's future reporting responsibilities. Section 9-18-104(a), *Tennessee Code Annotated*, now states,

By June 30, 1999, and each year thereafter, the head of each executive agency . . . shall submit to the commissioner of finance and administration and the comptroller of the treasury a letter acknowledging responsibility for maintaining the internal control system of the agency.

Recommendation

The department should comply with the provisions of the Financial Integrity Act. On June 30 of each year, the Adjutant General should submit a letter to the Commissioner of Finance and Administration and the Comptroller of the Treasury acknowledging responsibility for maintaining the Military Department's internal control system.

Management's Comment

We concur. We failed to submit a letter of acknowledgement of internal financial control (of the department) by June 30, 2000. This oversight was a simple calendar omission.

With the establishment of a date certain tickler system to assure timely reporting, there will not be a repeat of this oversight in the future.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and
- the department made drawdowns at least weekly using the applicable STARS reports.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We reviewed supporting documentation and tested all grant awards and all drawdowns for the Disaster Assistance program. We concluded that appropriate grant information was entered into the STARS grant control table upon notification of the grant award and that the department made drawdowns at least weekly using the applicable STARS reports, with some minor exceptions. Although we had no findings related to Policy 20, minor weaknesses were reported to management in a separate letter.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Military Department of Tennessee filed its compliance reports and implementation plans on June 30, 1999, and June, 30, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

Military Department allotment codes:

Division of Administration	341.01
Tennessee Army National Guard	341.02
Tennessee Air National Guard	341.03
Tennessee Emergency Management Agency	341.04
Armories Maintenance	341.07
Civil Defense - Disaster Relief	341.09
Armories Utilities	341.10